BELDING HOUSING COMMISSION BELDING, MICHIGAN

FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
AND
REPORTS ON INTERNAL CONTROL AND
COMPLIANCE

AUDITING PROCEDURES REPORT Issued under P.A. 2 of 1968, as amended. Filing is mandatory.			
Local Government Type City Township Village Other Selding Wowing Commit	Win	County	
Audit Date 6/30/04 Opinion Date 12/28/by Date Accountant Report St		:	
We have audited the financial statements of this local unit of government and reprepared in accordance with the Statements of the Governmental Accounting Reporting Format for Financial Statements for Counties and Local Units of Department of Treasury. We affirm that:	Standards B	oard (GASB) ar	nd the <i>Uniform</i>
1. We have complied with the Bulletin for the Audits of Local Units of Government	ent in Michig	an as revised.	
2. We are certified public accountants registered to practice in Michigan.			
We further affirm the following. "Yes" responses have been disclosed in the final the report of comments and recommendations	ancial stateme	ents, including th	ne notes, or in
You must check the applicable box for each item below.			
yes 🗵 no 1. Certain component units/funds/agencies of the local unit a	are excluded	from the financi	al statements.
yes on 2. There are accumulated deficits in one or more of this earnings (P.A. 275 of 1980).	s unit's unres	served fund ba	lances/retained
yes on o 3. There are instances of non-compliance with the Uniform 1968, as amended).	n Accounting	and Budgeting	Act (P.A. 2 c
yes or its requirements, or an order issued under the Emerge		,	oal Finance Ad
yes of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).			
yes 🔯 no 6. The local unit has been delinquent in distributing tax reversible.	enues that we	re collected for	another taxing
yes no 7. The local unit has violated the Constitutional requirement earned pension benefits (normal costs) in the current yea the overfunding credits are more than the normal cost reduring the year).	r. If the plan i	is more than 10	0% funded and
yes on 8. The local unit uses credit cards and has not adopted an 1995 (MCL 129.241).	applicable po	licy as required	by P.A. 266 c
yes on 9. The local unit has not adopted an investment policy as re	quired by P.A	. 196 of 1997 (I	MCL 129.95).
We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.		roiwaided	Nequireu
Reports on individual federal financial assistance programs (program audits).	V		J
Single Audit Reports (ASLGU).			J
Certified Public Accountant (Firm Name) Barry E. Gaudeth, IPA, IC			
Street Address 110) E. 9th Isray City Warre	CA	State ZIP	49686
Accountant Signature Bany (Landie Ch			

BELDING HOUSING COMMISSION TABLE OF CONTENTS June 30, 2004

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•		<u>INTRO</u>	DUCTION
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Barry E. Gaudette, CPA, P.C.

1107 East Eighth Street Traverse City, Michigan 49686 (231) 946-8930 Fax (231) 946-1377

Independent Auditor's Report

Board of Commissioners Belding Housing Commission Belding, Michigan

We have audited the accompanying statements of net assets of the Belding Housing Commission, Michigan(a component unit of the City of Belding) as of June 30, 2004, and the related statements of revenues, expenses, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Housing Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Belding Housing Commission, Michigan, as of June 30, 2004, and the results of its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 28, 2004 on our consideration of Belding Housing Commission, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Belding Housing Commission Independent Auditor's Report Page Two

Management's Discussion and Analysis is not a required part of the financial statements, but is supplementary information the Government Accounting Standards Board requires. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion thereon.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Financial Data Schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Housing Commission. The accompanying Schedule of Expenditures of Federal Awards, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Bany & Faulth, (PA, PC December 28, 2004

BELDING HOUSING COMMISSION MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A) June 30, 2004

The Belding Housing Commission, created in 1951, by the City of Belding provides housing to meet the community's needs for affordable low-income housing. As management of the Housing Commission, we offer readers this narrative overview and analysis of the financial activities of the Housing Commission for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with the Housing Commission's financial statements.

Financial Highlights

The financial statements for Belding Housing Commission consists of two programs. The first is owned housing, consisting of 140 units of public housing and the second is the capital funding program. Belding Housing Commission had total revenues of \$689,272 that includes \$343,002 in rental payments and \$331,364 in federal assistance. Total operating expenses were \$719,431, that includes \$222,176 in administrative expenses, \$167,108 in ordinary maintenance expenses, and \$160,297 in depreciation expense.

The assets of the Housing Commission exceeded its liabilities at the close of the most recent year by \$3,567,119. The Housing Commission's total net assets decreased by \$48,258 from the prior year. The decrease is attributable in part to depreciation expense increasing by \$24,998 over the prior year

Total assets of the Housing Commission were \$3,660,555 including \$290,173 of current assets and \$3,370,382 of net property, plant, and equipment assets. The Housing Commission had current liabilities of \$93,436.

Overview of the Financial Statements

The financial statements included in this annual report are those of a special-purpose government engaged only in a business-type activity. The following statements are included:

- * Statement of Net Assets reports on the Housing Commission's current financial resources with capital and other assets and other liabilities.
- * Statement of Revenues, Expenses, and Changes in Fund Net Assets reports the Housing Commission's operating and non-operating revenues, by major source along with operating and non-operating expenses and capital contributions.
- * Statement of Cash Flows reports the Housing Commission's cash flows from operating, investing, capital, and non-capital activities.

BELDING HOUSING COMMISSION MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A) (CONTINUED)

June 30, 2004

Financial Analysis of the Housing Commission

The following combined condensed balance sheets show a summary of changes for the years ended June 30, 2004 and 2003.

	2004	2003	Net Change
Current assets Property and equipment	•	\$ 306,335 3,392,285	\$(16,162) (21,903)
Total assets	\$3,660,555	\$3,698,620	<u>\$(38,065</u>)
Current liabilities	\$ 93,436	\$ 83,243	\$ 10,193
Total liabilities	93,436	83,243	10,193
Net assets: Invested in capital assets Unrestricted net assets	3,370,382 196,737	2,871,707 743,670	498,675 (546,933)
Total net assets	3,567,119	3,615,377	(48,258)
Total liabilities and net assets	\$3,660,55 <u>5</u>	<u>\$3,698,620</u>	<u>\$(38,065</u>)

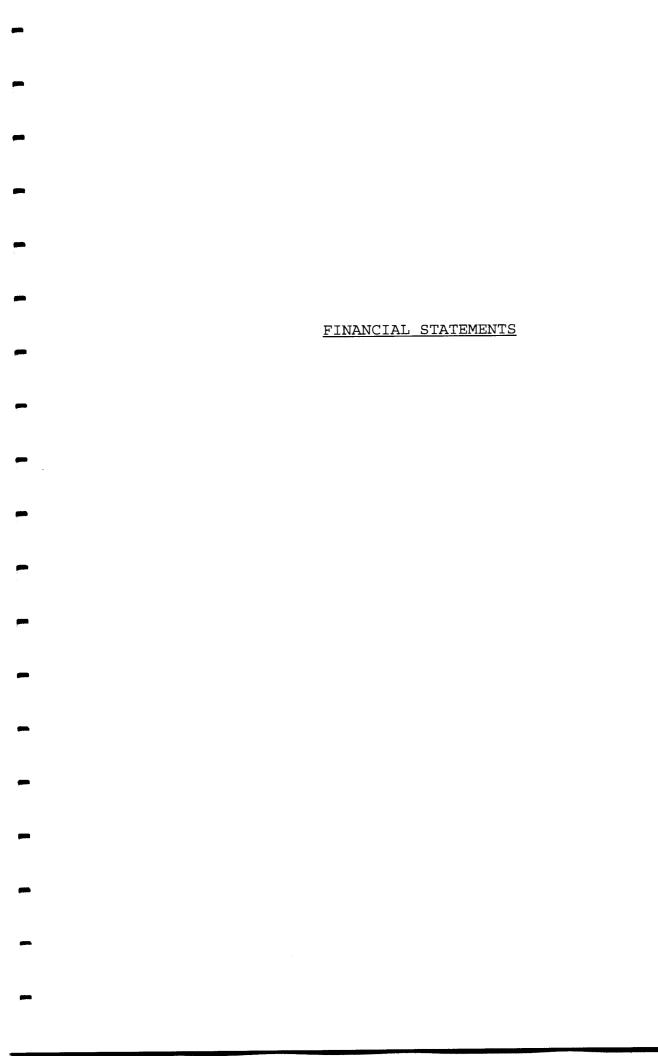
BELDING HOUSING COMMISSION MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A) (CONTINUED)

June 30, 2004

Financial Analysis of the Housing Commission (continued)

The following table summarizes the Statement of Revenues, Expenses and Changes in Net Assets of the Housing Commission for the years ended June 30, 2004 and 2003.

	2004	2003	<u>Net Change</u>
Operating revenues: Dwelling rent Nondwelling rent	\$ 343,002 12	\$ 341,299 <u>36</u>	\$ 1,703 (24)
Total operating revenues	343,014	341,335	1,679
Operating expenses: Administration Tenant services Utilities Ordinary maintenance and operation General expenses Extraordinary maintenance Depreciation	222,176 6,780 82,925 167,108 73,231 6,914 160,297	199,324 7,146 85,423 158,202 59,191 8,460 135,299	22,852 (366) (2,498) 8,906 14,040 (1,546) 24,998
Total operating expenses	719,431	653,045	66,386
Operating income(loss)	(376,417)	(311,710)	(64,707)
Non-operating revenue (expense): Interest income Operating grants Capital grants (Loss) on sale of fixed assets Other income	2,566 186,364 145,000	3,296 206,730 125,429 (996) 8,543	(730) (20,366) 19,571 996 3,785
Total nonoperating revenue (expense)	346,258	343,002	3,256
Net income(loss)	(30,159)	31,292	(61,451)
Prior period adjustments	<u>(18,099</u>)	(47,310)	29,211
Change in Net Assets	\$(48,258)	<u>\$(16,018</u>)	<u>\$(32,240</u>)



BELDING HOUSING COMMISSION COMBINED STATEMENT OF NET ASSETS June 30, 2004

ASSETS

Current Assets: Cash Accounts receivable-dwelling rents Investments-unrestricted Prepaid expenses	\$ 147,438 3,746 115,000 23,989
Total Current Assets	290,173
Property, Plant, and Equipment: Land Buildings Equipment Building improvements Less: accumulated depreciation	89,572 5,245,367 250,076 147,977 5,732,992 (2,362,610)
Net Property, Plant, and Equipment	3,370,382
Total Assets	<u>\$ 3,660,555</u>

BELDING HOUSING COMMISSION COMBINED STATEMENT OF NET ASSETS (CONTINUED)

June 30, 2004

LIABILITIES and NET ASSETS

Current Liabilities: Accounts payable Tenant security deposit liability Accrued expenses Deferred revenues	\$ 34,934 31,211 23,986 3,305
Total Current Liabilities	93,436
Total Liabilities	93,436
Net Assets: Invested in capital assets Unrestricted net assets	3,370,382 196,737
Total Net Assets	3,567,119
Total Liabilities and Net Assets	\$ 3,660,555

BELDING HOUSING COMMISSION

COMBINED STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS

Year Ended June 30, 2004

OPERATING REVENUES: Dwelling rent Non-dwelling rent Total operating revenues	\$ 343,002 12 343,014
OPERATING EXPENSES: Administration Tenant services Utilities Ordinary maintenance and operation General expenses Extraordinary maintenance Depreciation	222,176 6,780 82,925 167,108 73,231 6,914 160,297
Total operating expenses Operating income(loss)	719,431 (376,417)
NONOPERATING REVENUES AND (EXPENSES): Investment interest income Other income Operating grants Capital grants Total nonoperating revenues(expenses)	2,566 12,328 186,364 145,000
Net income(loss)	(30,159)
Prior period adjustments Net assets, beginning	(18,099) 3,615,377
Net assets, ending	<u>\$ 3,567,119</u>

See notes to financial statements

BELDING HOUSING COMMISSION COMBINED STATEMENT OF CASH FLOWS

Year Ended June 30, 2004

Cash flows from operating activities: Operating(loss) Adjustments to reconcile operating (loss) to net cash(used in) operating activities:	\$(376,417)
Depreciation Changes in assets and liabilities: (increase) decrease in assets:		160,297
Accounts receivable Prepaid expenses Increase (decrease) in liabilities:		6,832 4,096
Accounts payable-operations Accrued wage/payroll taxes Accounts payable-PILOT Tenant security deposits Deferred revenues	-	514 6,037 705 1,517 1,420
Net cash (used in) operating activities	(194,999)
Cash flows from noncapital financing activities:		
Operating grants Other revenue		186,364 12,328
Net cash provided by noncapital financing activities		198,692
Cash flows from capital and related financing activities:		
Capital grants Payments for capital acquisitions		145,000 156,493)
Net cash (used in) capital and related financing activities	(11,493)

BELDING HOUSING COMMISSION COMBINED STATEMENT OF CASH FLOWS (CONTINUED) Year Ended June 30, 2004

Cash flows from investing activities: Certificates of deposits purchased Receipts of interest and dividends		70,000) 2,566
Net cash provided by investing activities	(_	67,434)
Net increase(decrease) in cash	(75,234)
Cash, beginning		222,672
Cash, ending	\$	147,438
Reconciliation of cash and cash equivalents per s flows to the balance sheet:	tater	ment of cash
Cash	\$	147,438

Cash and cash equivalents per balance sheet

\$ 147,438

Restricted cash

See notes to financial statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Reporting Entity

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the Belding Housing Commission. The Belding Housing Commission is a component unit of the City of Belding, a Michigan home rule city. The Housing Commission is a Public Housing Agency created by the City of Belding on April 3, 1951, consisting of a five member board appointed by the City Manager and charged with the responsibility to provide and service housing to meet the community's needs for affordable low-income housing. These financial statements include all of the resources and activities of the Belding Housing Commission over which the Housing Commission exercises operational control or which have financial significance to the Housing Commission.

Grants and Other Intergovernmental Revenues

The Housing Commission has entered into contracts with the U.S. Department of Housing and Urban Development (HUD). Under Contract C-3006, the Housing Commission constructed, maintains and operates 140 units of subsidized housing in the City of Belding, Michigan.

Fund Accounting

The accounts of the Housing Commission are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, equity, revenues, and expenses. The Housing Commission's fund structure includes only proprietary funds. Under generally accepted accounting principles, proprietary funds are grouped into two broad categories - enterprise and internal service funds. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered through user charges; or (b) where laws or regulations require that the activity's costs of providing services including capital costs (such as depreciation or debt service) be recovered with fees and charges rather than with taxes and similar revenues. All of the Housing Commission's funds are operated as enterprise type proprietary funds whereby costs of services are to be recovered through user charges or subsidies from other governmental units.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The Housing Commission's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the economic resources measurement focus, all assets and all liabilities (whether current or noncurrent) are included in the statement of net assets of the individual funds. Their reported net assets are segregated into invested capital assets and unrestricted net assets components. Operating statements present increases (revenues) and decreases (expenses) in net assets.

Under the accrual basis of accounting, all revenues are recorded when earned, regardless of when received, and all expenses are recorded when a liability is created, regardless of when paid.

In accordance with Governmental Accounting Standards Board Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, the City of Belding has elected to apply only those Financial Accounting Standards Board Statements issued prior to November 30, 1989 to its proprietary funds and to the proprietary funds of its component units.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Housing Commission considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Insurance

The premiums on all major insurance policies are charged to prepaid insurance and amortized over the life of the policy.

Budgets and Budgetary Accounting

The Housing Commission is required under each of its HUD contracts to adopt an annual operating budget which must be approved by HUD. Budgetary data and comparison of actual and planned performance is reported directly to HUD based on specific program reporting requirements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables

All receivables are reported at their net value, reflecting where appropriate, by the estimated portion that is expected to be uncollectible. The Housing Commission estimates the uncollectible portion of tenant rents as a percentage of gross tenant rents using prior collection experience.

Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds. Receivables and payables arising from these transactions are classified as "due from other funds" and "due to other funds" on the statement of net assets.

Fixed Asset Capitalization

Fixed assets with a cost to acquire or construct of \$500 or more are capitalized and depreciated over their estimated useful lives. Depreciation is provided on a straight-line basis using the following estimate of useful lives:

Buildings 40 years Furniture, equipment and machinery 5 - 10 years Building improvements 10 years

Net Assets

The Housing Commission classifies its net assets as follows:

- a. Invested in capital assets represents pre-2001 contributions from grants, HUD notes, and other aids for capital acquisitions and improvements.
- b. Unrestricted net assets indicate that portion of net assets which is available for use in future periods.

Operating Revenues and Expenses

The Housing Commission includes in operating revenues resources that are derived or received from exchange transactions. Resources derived principally from non-exchange transactions are excluded from operating income. Operating expenses include the cost of providing services, excluding depreciation. Depreciation, amounts expended for capital additions and amounts expended for retirement-of-debt are excluded from operating expenses. Depreciation expense is charged to invested in capital assets rather than unrestricted net assets.

oune 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of management estimates. The Housing Commission uses estimates of useful lives of its fixed assets and other estimates in preparing its financial statements. Actual results may differ from the Housing Commission's estimates.

Vacation and Sick Leave

The Housing Commission allows permanent employees to accumulate the following compensated absences:

- * Vacation leave, an employee who is permanently separated shall be paid, in a lump sum at his/her current rate of pay for all unused vacation leave prorated to the date of separation. Vacation leave not taken by employees may not be accumulated to exceed the number of weeks earned in one year, unless otherwise approved by the Commission. Employees are encouraged to take annual vacation leave to the extent that it is earned.
- * Sick leave days are not accruable since the Commission provides short and long term disability insurance. Employees may be paid 50% for sick leave not taken during a calendar year at his/her regular rate of pay as an incentive to use sick leave judiciously.
- * Personal leave, each regular full-time employee shall be allowed two(2) personal leave days per year.

The amount of accumulated benefits at June 30, 2004, was minimal, and is not recorded as a liability in the applicable funds.

Post Employment Benefits

The provision for pension cost is recorded on an accrual basis, and the Commission's policy is to fund pension costs as they accrue.

Income Taxes

As a component unit of a Michigan home rule city, the Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

NOTE 2: CASH AND INVESTMENTS

The Housing Commission maintains cash and investment accounts in the Low Rent Program.

HUD authorizes the Housing Commission to invest in certificates of deposit, money-market funds, United States government securities, and repurchase agreements fully collateralized by United States government securities.

The Housing Commission's investments are categorized below to give an indication of the level of risk assumed by the entity at year end.

- Category 1: Includes deposits that are insured, registered, or for which the collateral securities are held by the Housing Commission or its agent in the Housing Commission's name. This includes FDIC or equivalent insurance coverage.
- Category 2: Includes deposits for which the collateral securities are held by the dealer's trust department or agent in the Housing Commission's name.
- Category 3: Includes all uninsured and uncollateralized deposits.

For all deposits shown below, the market value at the balance sheet date is substantially the same as the carrying value. The difference between the bank balance and carrying value is due to outstanding checks and/or deposits in transit. At various times during the year, the Housing Commission's deposits may have been higher than the June 30, 2004, balances detailed below. This means that the Housing Commission's risk and exposure could have been higher at these times. The Housing Commission had no significant type of deposits during the year not included below.

	Deposit	ory Bal	ances by	Cate	egory	Carrying
Depository	<u>1</u>	<u>2</u>	<u>3</u>	T	otal	Value
Independent Bank	\$ 83,532	\$	\$	\$	83,532	\$ 74,816
Ionia County National Bank Chemical Bank	92,388 95,034	***			92,388 95,034	92,388 <u>95,034</u>
Total Deposits	<u>\$270,954</u>	\$	\$	<u>\$</u>	270,954	262,238

June 30, 2004

NOTE 2: CASH AND INVESTMENTS (continued)

	Carrying <u>Value</u>
Change fund Petty cash	100 100
	<u>\$ 262,438</u>
Reconciliation to Cash on Balance Sheet Cash Investments Restricted cash	\$ 147,438 115,000
Total	\$ 262,438

NOTE 3: RECEIVABLES AND PAYABLES

Tenant Accounts Receivable

Tenant accounts receivable are recorded at gross amount and reduced by the estimated amount uncollectible. At June 30, 2004, the receivables were \$3,746 with \$-0- estimated as uncollectible. Bad debt expense was \$4,787.

Accounts Receivables - HUD

Amounts due from HUD represents funding due the Housing Commission for actual expenses for the programs financed. There weren't any amounts due from HUD as of June 30, 2004.

Inter-fund Receivables, Payables, and Transfers

Interfund receivables and payables are recorded as "due from other programs" and "due to other programs". There were no interfund receivables or payables as of June 30, 2004.

Individual fund operating transfers during the fiscal year are as follows:

Receiving Fund	Paying Fund	Amount
Low Rent Program	Capital Fund Program	\$ 50,617

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004 was as follows:

IOIIOWS:			Retirements/ Transfers	
Low Rent Program				
Land Buildings Furniture, equip. & machinery -	\$ 314,245 4,746,273	•	\$ 224,673	\$ 89,572 5,245,367
dwellings Furniture, equip. & machinery -	32,546	37,095		69,641
administration	170,267	10,168		180,435
Less accumulated	5,263,331	\$ 546,357	\$ 224,673	5,585,015
depreciation	(_2,202,313)	<u>\$(160,297</u>)	\$ (2,362,610)
Total	\$3,061,018			\$3,222,405

Capital Fund Program

	Balance 06/30/03		Retirements/ Transfers	Balance 06/30/04
Building improvements	<u>\$ 331,267</u>	\$ 145,000	\$ 328,290	\$ 147,977

NOTE 5: INVESTED IN CAPITAL ASSETS

The following is a summary of the activity in the Invested in Capital Assets account:

•	Invested in <u>Capital Assets</u>
Balance, beginning	\$ 2,871,707
Adjustment	498,675
Balance, ending	<u>\$ 3,370,382</u>

NOTE 6: POST EMPLOYMENT BENEFITS

The Housing Commission contributes to the City of Belding Retirement Plan, a defined contribution plan administered by Massachusetts Mutual Insurance Company. The Housing Commission contributes an amount equal to 9% of each employee's earnings to the plan. Although no employee contributions are required, voluntary contributions of up to an additional 10% of earnings are allowed.

The Housing Commission contributed a total of \$17,944.07.

Further details are available from the City of Belding.

NOTE 7: CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice to inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

NOTE 8: RISK MANAGEMENT AND LITIGATION

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which it obtains coverage from commercial companies. The Housing Commission has had no settled claims resulting from these risks that exceed their commercial coverage in the current year or the three prior fiscal years.

NOTE 9: PRIOR PERIOD ADJUSTMENTS, EQUITY TRANSFERS AND CORRECTION OF ERRORS

Low Rent Program

Transfer from CFP 2000 & 2001 grants	\$ 310,191
Capital Fund Program	
Transfer to Low Rent Program	\$(310,191)
Correction of 2000 CFP soft costs	(18,099)
	<u>\$(328,290</u>)

NOTE 10: SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The Housing Commission maintains three Enterprise Funds which provide housing assistance and grant programs. Segment information for the year ended June 30, 2004, was as follows:

Capital

	Low Rent <u>Program</u>		Fund rogram
Operating revenue Operating expenses Operating(loss) Depreciation Operating grants Capital grants Operating transfers Net income(loss) Plant, property, and equipment:	\$ 343,014 719,431 (376,417) 160,297 135,747 50,617 (175,159)	\$	50,617 145,000 50,617) 145,000
Additions Working capital Total assets Change in net assets Beginning net assets Ending net assets	11,493 196,737 3,512,578 135,032 3,284,110 3,419,142	(145,000 147,977 183,290) 331,267 147,977

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-	SUPPLEMENTARY INFORMATION
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BELDING HOUSING COMMISSION COMBINING STATEMENT OF NET ASSETS June 30, 2004

	C-3006 Low Rent Program 14.850	Capital Fund Program 14.872
ASSETS		
Current assets: Cash Accounts receivable-dwelling rents Investments-unrestricted Prepaid expenses	\$ 147,438 3,746 115,000 23,989	\$
Total current assets	290,173	
Property, plant, and equipment: Land Buildings Equipment Building improvements	89,572 5,245,367 250,076 5,585,015	<u>147,977</u> 147,977
Less accumulated depreciation	(2,362,610)	
Net property, plant and equipment	3,222,405	147,977
Total Assets	<u>\$3,512,578</u>	<u>\$ 147,977</u>

Totals

\$ 147,438 3,746 115,000 23,989

290,173

89,572 5,245,367 250,076 147,977 5,732,992 (2,362,610)

3,370,382

\$ 3,660,555

BELDING HOUSING COMMISSION COMBINING STATEMENT OF NET ASSETS (CONTINUED) June 30, 2004

	C-3006 Low Rent Program 14.850	Capital Fund Program 14.872
LIABILITIES and NET ASSETS		
Current liabilities: Accounts payable Tenant security deposit liability Accrued expenses Deferred revenues	\$ 34,934 31,211 23,986 3,305	\$
Total current liabilities	93,436	
Total liabilities	93,436	
Net assets: Invested in capital assets Unrestricted net assets	3,222,405 196,737	147,977
Total net assets	3,419,142	147,977
Total Liabilities and Net Assets	<u>\$3,512,578</u>	<u>\$ 147,977</u>

\$ 34,934 31,211 23,986 3,305 93,436 93,436 3,370,382 93,436 3,567,119 \$ 3,660,555

Totals

BELDING HOUSING COMMISSION

COMBINING STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS

Year Ended June 30, 2004

	C-3006 Low Rent Program 14.850	Capital Fund Program 14.872
OPERATING REVENUES: Dwelling rent Nondwelling rent	\$ 343,002 12	\$
Total operating revenues	343,014	
OPERATING EXPENSES: Administration Tenant services Utilities Ordinary maintenance and operation General expenses Extraordinary maintenance Depreciation	222,176 6,780 82,925 167,108 73,231 6,914 160,297	
Total operating expenses	719,431	
Operating income(loss)	(376,417)	
NONOPERATING REVENUES AND (EXPENSES): Investment interest income Other income Operating grants Capital grants Operating transfers in (out)	2,566 12,328 135,747 50,617	50,617 145,000 (50,617)
Total nonoperating revenues (expenses)	201,258	145,000
Net income(loss)	(175,159)	145,000
Prior period adjustments, equity transfers and correction of errors	310,191	(328,290)
Net assets, beginning	3,284,110	331,267
Net assets, ending	<u>\$3,419,142</u>	<u>\$147,977</u>

-	\$	343,002 <u>12</u>
-		343,014
-		222,176 6,780 82,925
_		167,108 73,231 6,914
_		160,297 719,431
_	_(376,417)
-		2,566 12,328 186,364 145,000
—		
_		346,258
_	(30,159)
	(18,099)
***		3,615,377
_	\$	3,567,119

Totals__

BELDING HOUSING COMMISSION COMBINING STATEMENT OF CASH FLOWS

Year Ended June 30, 2004

	C-3006 Low Rent Program 14.850	Capital Fund Program 14.872
Cash flows from operating activities: Operating(loss) Adjustments to reconcile operating (loss) to net cash(used in)	\$(376,417)	\$
operating activities: Depreciation Changes in assets and liabilities: (Increase) decrease in assets:	160,297	
Accounts receivable Prepaid expenses	6,832 4,096	
Increase (decrease) in liabilities: Accounts payable-operations Accrued wage/payroll taxes Accounts payable-PILOT Tenant security deposits Deferred revenues	514 6,037 705 1,517 1,420	
Net cash (used in) operating activities	(194,999)	
Cash flows from noncapital financing activities: Operating grants Operating transfers in (out) Other revenue	135,747 50,617 12,328	50,617 (50,617)
Net cash provided by noncapital financing activities	198,692	···
Cash flows from capital and related financing activities: Capital grants Payments for capital acquisitions	_(11,493)	145,000 (145,000)
Net cash (used in) capital and related financing activities	(11,493)	

\$(376,417) 160,297 6,832 4,096 514 6,037 705 1,517 1,420 194,999) 186,364 12,328 198,692 145,000 156,493) 11,493)

Totals

BELDING HOUSING COMMISSION COMBINING STATEMENT OF CASH FLOWS (CONTINUED)

Year Ended June 30, 2004

	C-3006 Capital Low Rent Fund Program Program 14.850 14.872			
Cash flows from investing activities: Certificates of deposits purchased Receipts of interest and dividends	(70,000) 2,566			
Net cash (used in) investing activities	(67,434)			
Net increase(decrease) in cash	(75,234)			
Cash, beginning	222,672			
Cash, ending	<u>\$ 147,438</u> <u>\$</u>			
Reconciliation of cash and cash equivalents per statement of cash flows to the balance sheet:				
Cash Restricted cash	\$ 147,438 \$ ————————————————————————————————————			
Cash and cash equivalents per balance sheet	<u>\$ 147,438</u> <u>\$</u>			

\$ 147,438

<u>\$ 147,438</u>

BELDING HOUSING COMMISSION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS

Year Ended June 30, 2004

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year	Federal Grantor	CFDA No.	Expenditures
	U.S. Department of HUD		
	Public and Indian Housing Nonmajor - Direct Program		
2004	Low Rent Public Housing	14.850	\$ 135,747
	Public and Indian Housing Nonmajor - Direct Program		
2004	Capital Fund Program	14.872	195,617
	Total		<u>\$ 331,364</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

NOTE 1: Significant Accounting Policies

The schedule of federal awards has been prepared on the accrual basis of accounting.

CFDA = Catalog of Federal Domestic Assistance

BELDING HOUSING COMMISSION FINANCIAL DATA SCHEDULE

Year Ended June 30, 2004

FDS Line Item No	ASSETS	C-3006 Low Rent Program 14.850	Capital Fund Program 14.872
	Current Assets:		
111	Cash: Cash-unrestricted	<u>\$ 147,438</u>	\$
100	Total cash	147,438	
126	Receivables: A/R-tenants-dwelling rents	3,746	
120	Total receivables, net of allowance for doubtful accounts	3,746	
131	Current Investments: Investments-unrestricted	115,000	
142	Other Current Assets: Prepaid expenses and other assets	23,989	
	Total other current assets	23,989	
150	Total current assets	290,173	
	Noncurrent Assets: Fixed Assets:		
161	Land	89,572	
162 163	Buildings Furn, equip & mach-dwellings	5,245,367 69,641	
164	Furn, equip & mach dwellings Furn, equip & mach-admin.	180,435	
165	Building improvements	,	147,977
166	Accumulated depreciation	(2,362,610)	
160	Total fixed assets, net of accumulated depreciation	3,222,405	147,977
180	Total noncurrent assets	3,222,405	147,977
190	Total Assets	<u>\$3,512,578</u>	<u>\$ 147,977</u>

	<u>Totals</u>
_	
•	\$ 147,438
	147,438
•	3,746
•	3,746
_	115,000
-	
	23,989
	23,989
-	290,173
-	89,572 5,245,367 69,641
-	180,435 147,977 _(2,362,610)
•	3,370,382
_	3,370,382
_	<u>\$ 3,660,555</u>

BELDING HOUSING COMMISSION FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended June 30, 2004

=======================================	===========
---	-------------

FDS Line Item No.			C-3006 Low Rent Program 14.850		Capital Fund Program 14.872
	LIABILITIES AND EQUITY/NET ASSETS				
	Liabilities:				
	Current Liabilities:				
312	Accounts payable<=90 days	\$	9,490	Ś	
321	Accrued wage/payroll taxes	•	,		
	payable		23,986		
333	Accounts payable-other		23,300		
	government		25,444		
341	Tenant security deposits		•		
342	Deferred revenues		31,211		
J42	Deletied levendes		3,305		
310	Total current liabilities		93,436	_	
300	Total liabilities		93,436		
	Equity:				
508.1		_3,	222,405		147,977
508	Total equity	3,	222,405		147,977
	Net Assets:				
512.1			106 808		
912.1	onlestlicted het assets		<u>196,737</u>		
513	Total net assets	_3,	419,142		147,977
600	Total Liabilities and Equity/Net Assets	<u>\$3,</u>	512,578	\$	147,977

\$ 9,490 23,986 25,444 31,211 3,305 93,436 93,436 3,370,382 3,370,382 196,737 3,567,119 \$ 3,660,555

Totals

BELDING HOUSING COMMISSION FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended June 30, 2004

FDS Line Item No.		C-3006 Low Rent Program 14.850	Capital Fund Program 14.872
702	Revenue: Net tenant rental revenue	¢ 242 002	ė.
703		\$ 343,002	\$
704	Tenant revenue-other	12	
705	Total tenant revenue	343,014	
706	HUD PHA grants	135,747	50,617
706.1	Capital grants		145,000
711	Investment income-unrestricted	2,566	
715	Other revenue	12,328	
5 00	Maha]	402 655	105 617
700	Total revenue	493,655	<u>195,617</u>
	Expenses:		
	Administrative:		
911	Administrative salaries	121,977	
912	Auditing fees	2,300	
915	Employee benefit contributions-adm	. 51,614	
916	Other operating-administrative	46,285	
	Tenant Services:		
921	Tenant services-salaries	3,699	
924	Tenant services-other	3,081	
	774 - 1 - 1 - 1		
001	Utilities:	07 400	
931	Water	21,400	
932	Electricity	16,902	
933	Gas	44,623	
	Ordinary maintenance and operation:		
941	Ordinary maint & oper-labor	82,228	
942	Ordinary maint & oper-mat'ls & other		
943	Ordinary maint & oper-contract cos	•	
945	Employee benefit contributions-	,	
J 13	ordinary maintenance	37,376	
	•	•	
	General expenses:		
961	Insurance premiums	43,000	
963	Payments in lieu of taxes	25,444	
964	Bad debt-tenant rents	4,787	
969	Total operating expenses	552,220	
970	Excess operating revenue		
270	over operating expenses	(58,565)	195,617

•	\$ 343,002
	343,014
1	186,364
	145,000
	2,566
	12,328
	689,272
	121,977
	2,300
	51,614
	46,285
	3,699
	3,081
	·
	21 400
	21,400 16,902
	44,623
	·
	00 000
	82,228
	16,195 31,309
	31,303
	37,376
	43,000
	25,444
	4,787
	552,220
	137,052

Totals

BELDING HOUSING COMMISSION FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended June 30, 2004

========	 	 ========

FDS Line Item No.		Lo :	C-3006 ow Rent Program 14.850	Capital Fund Program 14.872
971 974	Expenses continued: Other expenses: Extraordinary maintenance Depreciation expense		6,914 160,297	
	Total other expenses		167,211	
900	Total expenses		719,431	
	Excess (deficiency) of operating revenue over(under) expenses before other financing sources (uses)	(225,776)	195,617
1001	Other Financing Sources(Uses): Operating transfers in (out)		50,617	<u>(50,617</u>)
1000	Excess (deficiency) of operating revenue over(under) expenses	(175,159)	145,000
1104	Prior period adjustments, equity transfers and correction of errors		310,191	(328,290)
1103	Beginning Net Assets	3	,284,110	331,267
	Ending Net Assets	\$ 3	,419,142	\$147,977

___Totals

6,914 160,297

167,211

719,431

(30,159)

(30,159)

(18,099)

3,615,377

<u>\$ 3,567,119</u>

1107 East Eighth Street Traverse City, Michigan 49686 (231) 946-8930 Fax (231) 946-1377

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Board of Housing Commissioners Belding Housing Commission Belding, Michigan

We have audited the financial statements of the Belding Housing Commission, Michigan, (Housing Commission) as of and for the year ended June 30, 2004, and have issued our report thereon dated December 28, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Housing Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk

Report on Compliance and on Internal Control In Accordance with Government Auditing Standard Belding Housing Commission Page Two

Internal Control Over Financial Reporting - Continued

that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. We have noted other matters involving the internal control over financial reporting that we have reported to management of the Housing Commission in a separate letter dated December 28, 2004.

This report is intended solely for the information and use of the audit committee, Board of Housing Commissioners, management, others within the organization, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

December 28, 2004

Sary & Faulity, CAR, PC

BELDING HOUSING COMMISSION

INDEPENDENT AUDITORS' REPORTS ON COMMUNICATIONS WITH THE AUDIT COMMITTEE/BOARD OF COMMISSIONERS AND MANAGEMENT ADVISORY COMMENTS

JUNE 30, 2004

BELDING HOUSING COMMISSION

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1107 East Eighth Street Traverse City, Michigan 49686 (231) 946-8930 Fax (231) 946-1377

INDEPENDENT AUDITORS' REPORT ON COMMUNICATIONS WITH THE AUDIT COMMITTEE/BOARD OF COMMISSIONERS

To the Board of Commissioners Belding Housing Commission

We have audited the financial statements of the Belding Housing Commission ("Housing Commission") as of and for the year ended June 30, 2004, and have issued our report, thereon, dated December 28, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we communicate certain matters to your audit committee or its equivalent. These communications are reported in the following paragraphs.

Auditors' Responsibilities Under Auditing Standards Generally Accepted in the United States of America - In planning and performing our audit of the financial statements, we considered your internal control in order to determine our auditing procedures for purposes of expressing our opinion on the financial statements and not to provide assurance on your internal control. Also, an audit conducted under auditing standards generally accepted in the United States of America is designed to obtain a reasonable, rather than absolute, assurance about the financial statements.

Significant Accounting Policies - The significant accounting policies used in the preparation of your financial statements are discussed in Note 1 to the financial statements. There were no audit adjusting journal entries and no controversial accounting issues.

Management Judgments and Accounting Estimates - Significant management judgments and accounting estimates are disclosed in the notes to the financial statements.

Other Information in Documents Containing Audited Financial Statements - All the information included in the financial statements document has been audited and our responsibilities are addressed in the Independent Auditors' Report.

INDEPENDENT AUDITORS' REPORT ON COMMUNICATIONS WITH THE AUDIT COMMITTEE - CONTINUED

Audit Adjustments - For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Housing Commission's financial reporting process (that is, cause future financial statements to be materially misstated). The attached audit adjustments, in our judgment, indicate matters that could have a significant effect on the Housing Commission's financial reporting process (see page 6 showing the audit adjusting journal entries).

Disagreements With Management - For purposes of this letter, professional accounting standards define disagreement with management as a matter concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the audit.

Consultations With Other Accountants - To our knowledge, management has not consulted with other accountants regarding auditing and accounting matters.

Major Issues Discussed With Management Prior to Retention - There was no discussions regarding the application of accounting principles or auditing standards with management prior to our retention as your auditor.

Difficulties Encountered in Performing the Audit - There were no difficulties encountered in performing the audit. The staff was very cooperative and helpful.

This report is intended solely for the information and use of the audit committee or its equivalent and management and is not intended to be and should not be used by anyone other than these specified parties.

We shall be pleased to discuss any of the matters referred to in this letter. Should you desire more information on the above communications, we would welcome the opportunity to discuss them with you.

Sany E, Vandett, MA, PL December 28, 2004

1107 East Eighth Street Traverse City, Michigan 49686 (231) 946-8930 Fax (231) 946-1377

INDEPENDENT AUDITORS' REPORT ON MANAGEMENT ADVISORY COMMENTS

To the Board of Commissioners Belding Housing Commission

We have audited the financial statements of the Belding Housing Commission ("Housing Commission") as of and for the year ended June 30, 2004, and have issued our report, thereon, dated December 28, 2004. We have also issued compliance reports and reports on the internal control in accordance with *Government Auditing Standards*. These reports disclosed no material instances of noncompliance, weaknesses and reportable conditions.

Other matters involving the Housing Commission's operations and internal control, which came to our attention during the audit, are reported on the following pages as management advisory comments.

We would like to take this opportunity to acknowledge the many courtesies extended to us by the Housing Commission's personnel during the course of our work.

We shall be pleased to discuss any of the matters referred to in this letter. Should you desire assistance in implementing any of the following suggestions, we would welcome the opportunity of assisting you in these matters.

December 28, 2004

Sang & Landits, M. Pi

BELDING HOUSING COMMISSION MANAGEMENT ADVISORY COMMENTS

June 30, 2004

Cash Collections

Tenants currently can pay their rents by cash, check or money order.

We recommend that the Housing Commission consider not allowing payments by cash. This would provide another internal control in the collection of assets.

Tenant Deposits

The deposit ticket is reviewed by someone other than the employee that prepares and makes the deposit, but the bank receipt/deposit slip is not initialed by the reviewer.

We recommend that the Housing Commission employee reviewing the deposit ticket, also initial the deposit ticket receipt after the deposit is made by another employee. The Executive Director has begun to initial the bank receipt, indicating that it has been compared to what the deposit ticket amount.

Certificate of Deposits

The Housing Commission has several Certificate of Deposits, but there is not a policy in place that requires two signatures to start or cash in a Certificate of Deposit.

We recommend that the Housing Commission adopt a resolution that would require two signatures to open up a certificate of deposit or to cash in a certificate of deposit. This policy would provide another internal control for the safe guarding of assets in the future if a Certificate of Deposit is purchased.

Blank Checks

The Housing Commission had been keeping blank checks in an unlocked file cabinet.

The blank checks are now kept locked in a file cabinet and the key is kept in a locked safe.

BELDING HOUSING COMMISSION MANAGEMENT ADVISORY COMMENTS (CONTINUED) June 30, 2004

Invoices

The Housing Commission invoices had not been stamped as paid or any other markings after approved for payment.

We recommend that the Executive Director stamp the invoices with a "approve or deny" stamp before the Board Commissioner signs the checks. Also, before the check is mailed to the payee, the invoice should be marked with a "paid and date paid" stamp. These markings will prevent an invoice from being paid twice and provide another control on approval. The Housing Commission has implemented a procedure of stamping the invoice after payment.

Laundry Machine Cash Collections

The Housing Commission owns the washer and dryers that tenants use. About \$500 per month in coins is collected by one employee.

We recommend that the Housing Commission have two staff employees collect the coins from the laundry machines at the same time.

BELDING HOUSING COMMISSION ADJUSTING JOURNAL ENTRIES June 30, 2004

Account # Account Name	DebitCredit
LOW RENT PROGRAM	

There are no adjusting journal entries.